

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

Contact person - ID number

Contact telephone number:

LEGEND

UIL: 4945.04-04

B = Name
C = State
D = Organization
x dollars = Amount

Dear

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code Section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

Our determination

We approved your procedures for awarding scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding scholarships meet the requirements of Code Section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code Section 117(b)).

Description of your request

Your letter indicates you will operate a scholarship program called B. The purpose of B is to improve post-secondary education opportunities for high school students in rural counties in C for study at a qualifying post-secondary educational institution. B will also further your goal of ensuring that no student in these high schools will be denied a college education due to the lack of funds for tuition, room and board, and fees.

For numerous years, you have been operating a scholarship fund at D through which you have provided a scholarship to each and every eligible student at the three high schools over the past few years. You will continue to maintain this fund and use it for scholarships while also operating B which will provide you additional flexibility in awarding scholarships.

Through B, you will cover the student's remaining cost of attendance after considering the student's family's expected contribution and any other scholarships or grants that the student is receiving (not including student loans). The amount awarded to a student under B will not exceed x dollars per year. Further, you will promote the availability of B through your publications and through providing materials to the participating schools.

In order to be considered for a scholarship under B, the applicant must be a graduate of one of three high schools in the State of C and submit an application package consisting of the application form, financial aid request, a transcript, and a signed pledge to keep themselves free of any involvement with substance abuse or illegal drugs.

Applications will be reviewed by a scholarship selection committee consisting of your Board of Director's chairperson, your president and one other director as well one non-director appointed by your Board who has experience in making scholarship awards. The director and non-director committee members will serve one-year terms and may be appointed to multiple successive terms.

The selection committee presided by your chairman will select worthy recipients based primarily on their being accepted by and enrolling in a qualified educational institution. Other criteria the selection committee may use include, but are not limited to, prior academic performance, performance on aptitude tests, recommendations from instructors or counselors, financial need, and other facts and circumstances such as the conclusions which the selection committee might draw from a personal interview as to the individual's motivation, character, ability, and potential.

Terms of the scholarship include the following:

- The scholarship recipient must begin their program of study in the fall following their high school graduation;
- The scholarship recipient must maintain a full course of study;
- The scholarship recipient must complete their program of study in successive semesters and in the designated time of the educational institution (i.e., four semesters for community colleges and technical schools; eight semesters for four-year colleges and universities; or within a timeline determined by the scholarship committee for specialty programs).

Scholarships are granted for one year of tuition and fees. Recipients may apply to renew their award for additional one-year terms for up to three additional years as long as they remain enrolled in their school. Renewal awards will be redetermined each year in the same manner as for the initial award.

Supervision of scholarships awarded by you will be made according to either of the following methods, or a combination of both:

1) Scholarships paid directly by you to the educational institution and not to the student will require that the educational institution agree to use the funds to defray the student's expenses or to pay the funds to the student only if the student is enrolled at the educational institution and their standing at such educational institution is consistent with the purposes and conditions of the scholarship.

2) Scholarship paid by D will entail you paying a sum to the fund at D in order to fund scholarships. Amounts paid D for this purpose are subject to review by D's Scholarship Committee, who make the final determination whether a student is eligible for the scholarship and how much to award. The D Scholarship Committee, as provided by the agreement establishing the fund, shall balance merit with financial need, with an emphasis on financial need. When a student is deemed eligible for a scholarship, D then pays the awarded amount directly to the student's chosen school and not to the student.

If a scholarship recipient does not complete the term for which the scholarship was granted or withdraws from school, the scholarship recipient must notify you of the reasons and their future intentions. You may request reimbursement for the monies expended for an uncompleted term or during a period of withdrawal.

If you learn that scholarship funds have been used for an unintended purpose, you will take all reasonable and appropriate steps to recover the grant funds or to ensure the restoration of the diverted funds to the appropriate purposes of the scholarship. You will withhold further payments to the recipient until the diverted funds have been recovered or restored; you receive the grantee's assurances that future diversions will not occur; and the grantee agrees to take extraordinary precautions to prevent future diversions from occurring.

You will retain records pertaining to all scholarships made. Such records shall include all information you secured to evaluate the qualification of potential recipients; identification of recipients (including any relationship to you sufficient to make the recipient a disqualified person); specification of the amount and purpose of each grant; and any follow-up information that you obtain in compliance with the relevant Treasury Regulations.

Finally, you plan to add additional high schools in C in the coming years, but reserve the right to either broaden or narrow the pool of potential scholarship recipients by modifying this list of high schools; provided however, the pool of potential scholarship recipients may not be narrowed to a point whereby it is no longer sufficiently broad to serve a charitable purpose.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code Section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code Section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to the provisions of Code Section 117(a).
- The grant is to be used for study at an educational organization described in Code Section 170(b)(1)(A)(ii).

Other conditions that apply to this determination

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code Section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements